

Inspector General

United States
Department of Defense



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Acronyms and Abbreviations

ARRA	American Recovery and Reinvestment Act
HQ	Headquarters
OMB	Office of Management and Budget
RATB	Recovery Accountability and Transparency Board
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 25, 2011

MEMORANDUM FOR COMMANDING GENERAL, U.S. ARMY CORPS OF
ENGINEERS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: American Recovery and Reinvestment Act – U.S. Army Corps of Engineers'
Data Quality Review Processes of Civil Works Funding for the Period
Ending December 31, 2009, Were Not Effective (Report No. D-2011-055)

We are providing this report for review and comment. The U.S. Army Corps of Engineers did not have adequate controls in place to ensure the accuracy of recipient data and to correct significant errors. Adequate data quality reviews are essential to provide transparency and accountability of expenditures. This ensures that the American public knows how, when, and where the U.S. Army Corps of Engineers, Civil Works, American Recovery and Reinvestment Act funds were spent. This report discusses U.S. Army Corps of Engineers control structure over the Civil Works data quality reviews performed for the period ending December 31, 2009. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. Some of the comments provided by the U.S. Army Corps of Engineers Contracting Organization through the Deputy Chief U.S. Army Corps of Engineers Headquarters Internal Review Office were nonresponsive. Therefore, we request that the Commanding General, U.S. Army Corps of Engineers provide additional comments to Recommendations 1.b and 2.d by April 25, 2011.

If possible, send a .pdf file containing your comments to auddbo@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting



Results in Brief: American Recovery and Reinvestment Act — U.S. Army Corps of Engineers' Data Quality Review Processes of Civil Works Funding for the Period Ending December 31, 2009, Were Not Effective

What We Did

We initiated this audit at the request of the Recovery Accountability and Transparency Board. Our objective was to determine whether the U.S. Army Corps of Engineers fully implemented an effective internal control structure over recipient reporting of the American Recovery and Reinvestment Act funds for Civil Works Programs for the period ending December 31, 2009. The U.S. Army Corps of Engineers did not have adequate controls in place to ensure the accuracy of recipient data and to identify significant errors.

What We Found

The U.S. Army Corps of Engineers internal control structure over recipient reporting of American Recovery and Reinvestment Act of 2009 funds for Civil Works Programs for the period ending December 31, 2009, was not effective. The internal control structure was not effective because the U.S. Army Corps of Engineers did not:

- provide key award information to all recipients;
- perform adequate data quality reviews;
- accurately validate the number of "jobs retained or created" reported by recipients; and
- deter future noncompliant recipients.

As a result, the U.S. Army Corps of Engineers did not provide adequate transparency and accountability of expenditures. Specifically, only 42 percent of recipient reports in www.recovery.gov matched the key award information on the contracts maintained in the Federal award database. Also, U.S. Army Corps

of Engineers prevented the American public from knowing how, when, and where its Recovery Act funds were spent.

What We Recommend

We recommend that the Commanding General, U.S. Army Corps of Engineers:

- Implement procedures to ensure the U.S. Army Corps of Engineers is complying with Office of Management and Budget (OMB) Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates," December 18, 2009, requirements.
- Develop and implement its data quality review processes and procedures to ensure the U.S. Army Corps of Engineers is accurately identifying errors and validating jobs reported by recipients.

Management Comments and Our Response

The U.S. Army Corps of Engineers Contracting Organization (through the Deputy Chief U.S. Army Corps of Engineers Headquarters Internal Review Office) provided comments for each recommendation. Not all comments were fully responsive; therefore, we require additional information. We request that the Commanding General, U.S. Army Corps of Engineers provide comments in response to this report by April 25, 2011. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commanding General, U.S. Army Corps of Engineers	1.b, 2.d	1.a, 1.c, 2.a, 2.b, 2.c

Please provide comments by April 25, 2011.

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Introduction

Audit Objective

Our objective was to determine whether the U.S. Army Corps of Engineers (USACE) fully implemented an internal control structure that was effective in ensuring recipient data was reported completely, accurately, and in a timely manner; and that any material omissions or significant errors were identified and corrected for the period ending December 31, 2009.¹ We performed this audit at the request of the Recovery Accountability and Transparency Board (RATB). Our audit focused on the internal controls, policies, and procedures defined in the Office of Management and Budget (OMB) Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates,” December 18, 2009. OMB Memorandum M-10-08 required agencies disbursing American Recovery and Reinvestment Act (Recovery Act or ARRA) funds to implement a limited data quality review process to identify material omissions and significant errors, and to notify award recipients of the need to make complete, accurate, and timely adjustments. See the Appendix for a discussion of our scope and methodology.

Background on Recovery Act

Public Law 111-5, American Recovery and Reinvestment Act of 2009, February 17, 2009, provided supplemental appropriations to:

- preserve and create jobs;
- promote economic recovery;
- assist those most affected by the recession;
- provide investments to increase economic efficiency through technological advances in science and health; and
- invest in transportation, environmental protection, and other infrastructure.

Congress appropriated \$4.6 billion in Recovery Act funds to USACE for the following programs: Investigations, Construction, Operation and Maintenance, Regulatory Program, Formerly Utilized Sites Remedial Action Program, and Mississippi River and Tributaries. The funds are executed through contracts, grants, and cooperative agreements.

The Recovery Act is an unprecedented effort to ensure the responsible distribution of funds for the Act’s purposes and to provide transparency and accountability of expenditures so that the public would know how, when, and where tax dollars are spent. Recovery Act implementation guidance was issued to ensure the responsible distribution

¹ A subsequent report will be issued by the Department of Defense Office of the Inspector General for the audit of the Department of Defense Data Quality Review Processes for the Period Ending December 31, 2009. The report will include a review of the U.S. Army Corps of Engineers Military Programs.

of funds for the Act's purposes and to provide transparency and accountability of expenditures. The Recovery Act established the RATB and made it responsible for coordinating and conducting oversight of Federal spending under the Recovery Act to prevent fraud, waste, and abuse.

Reporting Requirements for Recovery Act

Public Law 111-5, American Recovery and Reinvestment Act of 2009 (Recovery Act), February 17, 2009

The Act requires recipients to report the following within 10 days after the end of each calendar quarter: the total amount of funds received, expended, or obligated; description of projects or activities; estimated number of jobs created or retained; and detailed information on any contracts or grants awarded to sub-recipients. The Act defines a recipient as any entity that receives Recovery Act funds directly from the Federal Government through contracts, grants, or loans, and includes States that receive funds. The RATB was required to establish and maintain a user-friendly, public-facing website to foster greater accountability and transparency in the use of covered funds. The website should be a portal or gateway to key information relating to this Act and provide connections to other Government websites with related information.²

OMB Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates," December 18, 2009

OMB Memorandum M-10-08 provided guidance for improving the quality of data reported under the Recovery Act. It outlines important steps Federal agencies must take to identify non-reporting recipients and bring such recipients into compliance with the Recovery Act. The memorandum provides a:

- standard methodology for effectively implementing reviews of the quality of data submitted by recipients,
- format and dates to provide OMB with the list of awards subject to recipient reporting, and
- format and dates to provide OMB with the associated list of specific recipients who failed to submit required reports.

² The RATB established a nationwide data collection system at www.federalreporting.gov for recipients to report the information required by the Recovery Act. The RATB makes the information reported by recipients available to the public at www.recovery.gov.

Federal agencies are to establish data quality plans that describe, at a minimum, their data quality review processes with a focus on significant reporting errors and material omissions. The memorandum emphasizes that significant errors in the following data fields are of major concern:

- Federal amount of the award,
- number of jobs retained or created,
- Federal award number, and
- recipient name.

Material omissions include the following:

- failure of a Federal Recovery Act award recipient to report on a received award as required by the terms of their award, and
- data in a report that is not responsive to a specific data element.

This memorandum also updates OMB Memorandum M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” Section 5, Reporting on Jobs Creation Estimates by Recipients, June 22, 2009. The update simplifies the manner in which job estimates are calculated and reported. Finally, the memorandum provides a series of practical and user-friendly examples for applying the simplified formula.

Recipient Reporting Cycles

September 30, 2009, Recipient Reporting Cycle

DoD Inspector General Report No. D-2010-RAM-001, “U.S. Army Corps of Engineers Data Quality Review Process for Civil Work Programs,” October 30, 2009, determined that USACE performed limited data quality reviews and documented its review processes in USACE’s internal Recovery Act guidance,³ issued July 2009. USACE internal Recovery Act guidance outlined the responsibilities of USACE Headquarters (HQ) and Major Subordinate Commands, District Centers, and Field Operating Activities (USACE Locations) for the reporting cycle phases. The reviews were to identify material omissions and significant reporting errors, and to notify Federal contract, grant, and partnership agreement recipients of the need to make appropriate and timely changes.

According to the DoD OIG report, USACE HQ developed an ARRA data validation tool during the initial reporting cycle to assist in performing limited data quality reviews of reports filed by recipients. The ARRA data validation tool compared contract data from the Federal Procurement Data System-New Generation (Federal award database) to the data reported by recipients on www.federalreporting.gov. The ARRA data validation tool generated reports that identified contract recipients that had not registered or filed a report on a contract award, and discrepancies in selected contract data elements.

³ USACE internal Recovery Act guidance establishes requirements for U.S. Army Corp of Engineers, Civil Works, as well as U.S. Army Corp of Engineers Military Programs.

The DoD OIG report indicated that USACE had plans to improve the completeness and accuracy of reports filed by recipients on www.federalreporting.gov. However, as of October 21, 2009, USACE reported that about one-third of all contract recipients had not registered, and recipients had not submitted a report on about one-half of the contracts awarded. As a result, the audit team determined the data reported on www.recovery.gov for the quarter ending September 30, 2009, might have contained material omissions or significant reporting errors, resulting in significant risk that the public was not fully informed of the status of a Recovery Act project or activity.

December 31, 2009, Recipient Reporting Cycle

In November 2009, USACE established an ARRA Risk Management Plan⁴ that built on the USACE internal control program, to ensure adequate controls were in place and operating effectively to safeguard government assets. As part of the internal control program, Division Commanders and Headquarters Staff heads were required to certify annually that they reviewed existing controls and verified that the controls were in place and effective. To augment this annual process, USACE was to review all management areas to determine whether controls were in place to manage Recovery Act funding. USACE would implement additional controls if needed. Subordinate commands and headquarters staff would provide additional certification to meet the unique requirements of the Recovery Act.

In December 2009, USACE HQ issued updated internal Recovery Act guidance that established updates to the USACE data quality plan based on OMB requirements. The USACE internal Recovery Act guidance required USACE HQ to conduct training and make any updates to its ARRA data validation tool prior to the beginning of each reporting cycle. The USACE internal Recovery Act guidance also required USACE HQ to review recipient reported data in www.federalreporting.gov and provide updated extracts of the ARRA data validation tool to the USACE Locations on a daily basis. Based on their review of the ARRA data validation tool, USACE Locations then provided comments to recipients with any suggested changes.

USACE also updated its internal Recovery Act guidance to require the USACE Locations to work with the recipients to register on www.federalreporting.gov. Further, the USACE internal Recovery Act guidance required the USACE Locations to distribute key award information to the recipients at the time of the award, and provide a written notice to a recipient if it had not reported during the first seven to eight days of the reporting cycle.

⁴ The USACE ARRA Risk Management Plan establishes requirements for the U.S. Army Corps of Engineers, Civil Works, as well as the U.S. Army Corps of Engineers Military Programs.

Internal Controls Ineffective for Data Quality Review Process

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for the USACE data quality review process. Internal controls were not sufficient to ensure USACE provided key award information to all recipients, performed adequate data quality reviews, accurately validated the number of “jobs retained or created” reported by recipients, and deterred future noncompliant recipients. We will provide a copy of the report to the senior official responsible for internal controls at USACE.

Finding. Recovery Act Data Quality Review Processes Need Improvement

The U.S. Army Corps of Engineers (USACE) internal control structure over recipient reporting of American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA) funds for the period ending December 31, 2009, was not effective. The internal control structure was not effective because USACE personnel did not:

- provide key award information to all recipients;
- perform adequate data quality reviews;
- accurately validate the number of “jobs retained or created” reported by recipients; and
- deter future noncompliant recipients.

As a result, USACE did not provide transparency and accountability of expenditures. In addition, USACE prevented the public from knowing how, when, and where the USACE Recovery Act funds were spent.

Internal Control Structure Needs to be Strengthened

USACE did not establish an adequate internal control structure over recipient reporting of Recovery Act funds. As required by OMB Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates,” December 18, 2009, USACE developed a data quality plan and documented it in USACE’s internal Recovery Act guidance. The USACE internal Recovery Act guidance outlined the responsibilities of USACE personnel and discussed the OMB Memorandum M-10-08 requirements intended to improve the quality of data reported under the Recovery Act. However, USACE controls did not ensure its personnel implemented the OMB requirements to comply with the Recovery Act and to provide transparency and accountability to the American public.

Not All Recipients Received Key Award Information

USACE Locations did not provide key award information to all of their Recovery Act award recipients. OMB Memorandum M-10-08 required Federal agencies to provide recipients with the following key award information, by December 22, 2009, to improve data quality and reduce inaccuracies in recipient reported data:

- award type,
- award number,
- order number for federally awarded contracts,
- funding agency code,
- awarding agency code,
- Government contracting office code,
- award date,
- award amount,

- Catalogue of Federal Domestic Assistance Number,
- activity code, and
- program source code.

After providing the key award information, each Federal agency must certify to OMB that all award recipients received required key award information and identify the format or process they used to provide the key award information. For all future awards, the

Of 10 awards reviewed, USACE Location personnel could not demonstrate that they provided recipients their key award information for two awards valued at \$64.8 million...

awarding agency is required to provide the key award information at the time of the award. Although Headquarters, USACE (USACE HQ) personnel provided OMB a certification of completion for the Recovery Act recipient notification process, USACE Location personnel did not notify all recipients. Of 10 awards⁵ reviewed, USACE Location personnel could not

demonstrate that they provided recipients their key award information for two awards valued at \$64.8 million, as required by OMB Memorandum M-10-08.

USACE Location personnel did not provide key award information to all of their recipients because they did not consistently implement USACE internal Recovery Act guidance requiring the USACE Location personnel to provide the key award information to their recipients. The first USACE Location stated they provided a letter to the recipient but erroneously excluded the attachment that contained the key award information. The second USACE Location acknowledged they did not send key award information to the recipient and explained that it was an oversight. By not providing key award information, there is a higher likelihood that recipients will report incorrect key award information.

In March 2010, USACE HQ issued updated internal Recovery Act guidance that replaced the guidance used for the October 1, 2009, through December 31, 2009, reporting period. The updated internal Recovery Act guidance specified seven letters that USACE personnel will use throughout the recipient reporting process. Three of the letters contain enclosures with the key award information, decreasing the likelihood that recipients will report incorrect key award information. USACE HQ should require that USACE Location personnel fully implement the updated USACE internal Recovery Act guidance to ensure they provide key award information to all recipients at the time of the award and increase reporting accuracy. To ensure implementation of the guidance, USACE HQ personnel should confirm that USACE Location personnel distributed key award information to all recipients.

⁵ We selected the 10 highest-dollar value awards through October 2009 that had a unique district assigned to them, in order to determine whether districts were providing key award information to the recipients.

Improvement Needed in Data Quality Review Process

USACE controls did not ensure that USACE HQ personnel performed adequate data quality reviews that accurately identified all significant errors and material omissions in recipient reported data. Specifically, USACE's listings of significant errors, material omissions, and noncompliant recipients reported to OMB were not accurate. OMB Memorandum M-10-08 requires Federal agencies to conduct a data quality review that, at a minimum, focuses on significant errors and material omissions. In addition, Federal agencies must compile and submit their listings of significant errors, material omissions, and noncompliant recipients to OMB. However, USACE personnel did not accurately identify all significant errors and material omissions in recipient reported data because USACE HQ personnel stated they primarily focused on ensuring all recipients reported data into www.federalreporting.gov regardless of the completeness and accuracy of the data.

USACE HQ personnel reported the following errors to OMB on its lists of significant errors, material omissions, and noncompliant recipients:

- 140 Significant Errors⁶
- 0 Material Omissions
- 267 Noncompliant Recipients

However, USACE personnel reported data identified 728 errors. We were able to validate 127 of the significant errors and 217 of the noncompliant recipients USACE personnel reported to OMB. USACE personnel also did not report 313 material omissions to OMB. In addition, USACE had 352 contracts in the Federal award database that did not have corresponding data in www.recovery.gov. Therefore, USACE HQ personnel should have reported at least an additional 352 errors on the noncompliant listing if the recipients had not reported, or on the significant error listing if the recipients reported the information incorrectly in www.recovery.gov.

Only 1191, or 42 percent, of recipient reports in www.recovery.gov matched the key award information⁷ on the 2849 contracts/awards maintained in the Federal award database. Recipients frequently reported an incorrect major program code or did not report an order number. Although the USACE internal Recovery Act

Only 1191, or 42 percent, of recipient reports in www.recovery.gov matched the key award information on the 2849 contracts/awards maintained in the Federal award database.

⁶ USACE identified 217 errors in its significant error listing; however, based on OMB Memorandum M-10-08, only 140 of these errors qualified as "significant errors."

⁷ The key award data elements "award type" and "Catalogue of Federal Domestic Assistance Number" were excluded from DoD OIG testing. The Award Type was excluded because the Federal award database only includes contracts so it was not necessary to do an award type comparison. The CFDA Number was excluded because it only applies to grants; therefore the Federal award database for contracts did not include this field. In addition to the key award information identified by OMB, the DoD OIG also matched on the Dun and Bradstreet Universal Numbering System number, as this is one of the fields used to identify significant errors.

guidance aims for USACE personnel to review 100 percent of recipient reports, USACE Location personnel stated they only reviewed recipient reports with potential deficiencies identified by the ARRA data validation tool. Without an adequate review process in place to accurately identify significant errors, material omissions, and noncompliant recipients, recipient reported data uploaded to www.recovery.gov might not be complete and accurate. USACE HQ personnel should revise their data quality review process to accurately identify significant errors, material omissions, and noncompliant recipients in accordance with OMB Memorandum M-10-08. In addition, personnel at USACE Locations should review 100 percent of recipient reports to potentially identify deficiencies not recognized by the ARRA data validation tool. USACE HQ personnel should also update USACE internal Recovery Act guidance to document the new data quality review procedures.

Jobs Reported Should be Properly Validated

USACE HQ personnel did not accurately validate the number of “jobs retained or created” reported by the recipients. OMB Memorandum M-10-08 requires that Federal agencies’ data quality reviews focus on significant errors, including the number of “jobs retained or created.” Accurate job reporting allows the public to understand the impact of Recovery Act funding on employment. However, USACE HQ personnel did not update their job validation logic check to meet OMB requirements. USACE HQ personnel stated the invoice data necessary to update its methodology were not readily available.

OMB Memorandum M-10-08 required recipients to report job estimates on a quarterly, rather than cumulative, basis. The updated requirements simplified how job estimates were calculated and aligned with the Government Accountability Office’s

Accurate job reporting allows the public to understand the impact of Recovery Act funding on employment.

recommendation to “standardize the period of measurement for Full Time Equivalents.”⁸ Although OMB updated the job estimation reporting requirements, USACE HQ personnel based their job validation logic check on subsequently updated OMB Memorandum

M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” June 22, 2009, that required recipients to report job estimates on a cumulative basis. To comply with the updated guidance, USACE HQ personnel stated they would need the amounts invoiced by the recipients for the quarter. However, the amount invoiced for the quarter was not available in www.federalreporting.gov, and USACE personnel stated they could not readily retrieve the data from its financial management system.

⁸ In Government Accountability Office report number GAO-10-224T, “Recovery Act- Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention,” November 19, 2009, GAO stated that failure to standardize on a consistent basis prevents meaningful comparison or aggregation of Full Time Equivalent data. Therefore, the Government Accountability Office recommended that OMB “standardize the period of measurement for Full Time Equivalents.”

In addition, the USACE HQ job validation logic check did not identify recipients who under-reported the number of “jobs retained or created.” USACE HQ did not identify those who under-reported because it was primarily concerned with recipients who over-reported job estimates by unintentionally reporting the dollar amount of their award in the “jobs retained or created” field in www.federalreporting.gov. By using inadequate logic checks to review the number of “jobs retained or created,” USACE’s number of jobs reported by recipients on www.recovery.gov may be inaccurate. In addition, without a proper review process to validate the number of jobs reported, USACE HQ may have omitted additional errors on its significant error listing.

In order for USACE to update its job validation logic check, USACE personnel stated that they requested that the RATB add a data field in www.federalreporting.gov for the amount invoiced for the quarter. In the interim, USACE HQ personnel should develop alternative procedures to obtain the amount invoiced for the quarter to accurately validate the number of “jobs retained or created.” USACE personnel should also develop their job validation methodology to ensure it identifies recipients who under-report the number of “jobs retained or created.” In addition, USACE personnel should fully document their job validation procedures, incorporating the new OMB Memorandum M-10-08 requirements, in its internal Recovery Act guidance.

Actions Necessary to Reduce Future Noncompliance

USACE Location personnel did not take action to reduce noncompliant recipients in subsequent reporting periods. OMB Memorandum M-10-08 requires Federal agencies to submit a listing of recipients who failed to report by the quarterly deadline (noncompliant recipients) to OMB. In addition, Federal agencies are required to determine an appropriate outreach method and establish contact with each noncompliant recipient. USACE HQ personnel provided OMB a list of noncompliant recipients to whom it sent “Warning on Performance” letters.⁹ However, USACE Location personnel did not send “Warning on Performance” letters to 5 of 10 recipients¹⁰ they reported as noncompliant for two reporting cycles. Furthermore, the five “Warning on Performance” letters the USACE Location personnel sent to recipients were dated after USACE HQ notified OMB that it had contacted the noncompliant recipients.

...USACE Location personnel did not send “Warning on Performance” letters to 5 of 10 recipients they reported as noncompliant for two reporting cycles. Furthermore, the five “Warning on Performance” letters the USACE Location personnel sent to recipients were dated after USACE HQ notified OMB that it had contacted the noncompliant recipients.

⁹ Although reported on the noncompliant listing, USACE HQ did not send, or represent that they sent, “Warning on Performance” letters to recipients who were only noncompliant because USACE HQ incorrectly instructed the recipient not to report.

¹⁰ We selected the 10 highest-dollar value awards from the list of recipients reported as noncompliant for two reporting cycles.

USACE Location personnel stated they did not notify these recipients because USACE HQ did not provide guidance to instruct the USACE Location personnel to contact each recipient who failed to report. USACE internal Recovery Act guidance required the USACE Location personnel to contact recipients if a recipient *may* become noncompliant, or if USACE identified a significant error or material omission in the recipient reported data. However, the USACE internal Recovery Act guidance did not instruct USACE Location personnel to contact a recipient if the recipient became noncompliant. As a result, noncompliant recipients were not contacted and may continue to be noncompliant in subsequent reporting periods.

The USACE internal Recovery Act guidance issued in March 2010 specified seven letters that USACE will use throughout the recipient reporting process. USACE is to distribute three of the letters to noncompliant recipients to deter current and future noncompliance. These letters notify noncompliant recipients of their failure to submit a report and warn them that USACE will submit a performance report reflecting recipients' noncompliance. USACE HQ should require that USACE Location personnel fully implement the updated USACE internal Recovery Act guidance to reduce the level of noncompliance in subsequent periods. In addition, USACE HQ personnel should confirm with USACE Location personnel that they have notified all noncompliant recipients prior to notifying OMB.

Conclusion

USACE did not implement a control structure that complied with OMB Memorandum M-10-08 requirements over recipient reporting of Recovery Act funds. As a result, data quality reviews did not adequately identify significant errors, material omissions, and noncompliant recipients. Without effective controls to ensure recipient reported data is complete and accurate, there is an increased risk that the data will not provide transparency and accountability of expenditures so that the public will know how, when, and where USACE Recovery Act funds are spent. USACE should strengthen its procedures and management oversight to ensure controls are in place and operating effectively to comply with Recovery Act unique requirements.

Recommendations, Management Comments, and Our Response

We recommend that the Commanding General, U.S. Army Corps of Engineers:

1. Implement procedures to ensure the U.S. Army Corps of Engineers, Civil Works, Major Subordinate Commands, District Centers, and Field Operating Activities follow updated USACE internal Recovery Act guidance and properly:

a. Provide key award information to all Recovery Act award recipients.

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization (through the Deputy Chief U.S. Army Corps of Engineers Headquarters Internal Review Office) agreed and stated that USACE Location

personnel were instructed to keep hard copies of all letters sent to recipients and certify 100 percent compliance to USACE Headquarters prior to the beginning of the reporting period.

Our Response

Comments from the USACE Contracting Organization were responsive. USACE has implemented procedures to ensure that the USACE Location personnel follow the updated USACE internal Recovery Act guidance. We require no additional comments.

- b. Notify all noncompliant recipients of their failure to submit required reports.**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed and stated that the subsequently issued Fragmentary Order #26 to Operations Order 2009-11, "USACE Execution of the American Recovery and Reinvestment Act 2009 (Recipient Reporting)," March 9, 2010, instructed USACE Location personnel to contact any noncompliant recipients through the use of specific correspondence.

Our Response

We consider the USACE Contracting Organization comments nonresponsive. We acknowledged in the report how USACE internal Recovery Act guidance issued in March 2010 did contain three sample letters USACE Location personnel were to provide noncompliant recipients to deter current and future noncompliance. USACE Headquarters did not identify the procedures implemented to ensure USACE Location personnel properly followed the updated USACE internal Recovery Act guidance. Accountability should be established to ensure the USACE Location personnel fully implement the updated USACE internal Recovery Act guidance. We ask that the Commanding General, USACE, identify specific procedures implemented to ensure USACE Location personnel follow the updated internal Recovery Act guidance.

- c. Review 100 percent of Recovery Act recipient reports, in accordance with Recovery Act guidance to identify differences not recognized by the ARRA validation tool.**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed and stated that to ensure USACE Location personnel are reviewing all required fields in accordance with Recovery Act guidance, USACE Headquarters personnel take a random sample of recipient reports verifying that USACE Location personnel have properly reviewed the OMB Memorandum M-10-14 required fields.

Our Response

Comments from the USACE Contracting Organization were responsive. USACE implemented procedures to ensure that the USACE Location personnel follow the updated USACE internal Recovery Act guidance. We require no additional comments.

2. Develop and implement U.S. Army Corps of Engineers data quality review processes and procedures, in accordance with Office of Management and Budget (OMB) Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates,” December 18, 2009, to:

- a. Accurately identify all significant errors, material omissions, and noncompliant recipients.**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed and stated that the ARRA validation tool was updated during the April 2010 and July 2010 time periods to assist USACE Location personnel to accurately identify all noncompliant recipients, significant errors, material omissions, and other data anomalies listed in OMB Memorandum M-10-08.

Our Response

Comments from the USACE Contracting Organization were responsive. We require no additional comments.

- b. Obtain the amount invoiced for the quarter to accurately validate the number of “jobs retained or created.”**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed stating that the quarterly invoiced amount data from the U.S. Army Corps of Engineers Financial Management System was included in the daily review process beginning in the July 2010 reporting period. USACE used this data in conjunction with developed “full-time equivalent” estimates to evaluate recipient reported estimates for accuracy.

Our Response

Comments from the USACE Contracting Organization were responsive. We require no additional comments.

- c. Identify recipients who under-report the number of “jobs retained or created.”**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed and stated that they added the ability to evaluate under-reported full-time equivalents to the ARRA validation tool during the July 2010 reporting period. This should allow agency reviewers to identify recipients reporting full-time equivalents totals below USACE projected totals.

Our Response

Comments from the USACE Contracting Office were responsive. We require no additional comments.

- d. Confirm each quarter that U.S. Army Corps of Engineers, Civil Works, Location personnel have properly distributed key award information and notified all noncompliant recipients.**

U.S. Army Corps of Engineers Comments

The USACE Contracting Organization agreed and stated that the subsequently issued Fragmentary Order #26 instructed USACE Location personnel to contact any noncompliant recipients through the use of specific correspondence.

Our Response

Although the USACE Contracting Organization agreed, we consider their comments nonresponsive. We acknowledged in the report how USACE internal Recovery Act guidance issued in March 2010 contained seven letters that USACE Location personnel will use throughout the recipient reporting process. Three of the letters contain enclosures with the key award information or were directed towards noncompliant recipients. Our recommendation was to develop and implement data quality review processes and procedures to ensure key award information was properly distributed and the notification of noncompliant recipients by USACE Location personnel. The updated USACE internal Recovery Act guidance does not include processes or procedures requiring USACE Headquarters personnel to independently confirm that the USACE Location personnel properly implemented the updated USACE internal Recovery Act guidance. Proper oversight and accountability should be established to ensure the USACE Location personnel fully implement the updated guidance. We request that the Commanding General, USACE provide additional comments in response to the final report detailing how USACE Headquarters personnel will confirm each quarter that USACE Location personnel have properly distributed key award information and notified all noncompliant recipients.

Appendix. Scope and Methodology of Audit

We conducted this audit from March 2010 through November 2010 in accordance with generally accepted government auditing standards except for the fieldwork auditing standards for identifying investigations, assessing fraud risk, and identifying data and information system controls because of the limited time required by the Recovery Act and Transparency Board to complete this audit. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. Omitting these procedures did not limit our ability to conclude on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions.

We performed analysis on data from www.federalreporting.gov, www.recovery.gov, and U.S. Army Corps of Engineers (USACE), Civil Works contracts from the Federal award database. Our review focused on American Recovery and Reinvestment Act (Recovery Act or ARRA) funds awarded through contracts. We compared key award information contained in the Federal award database to key award information reported in www.federalreporting.gov and subsequently uploaded to www.recovery.gov, for the period ending December 31, 2009. We also reviewed and evaluated the significant errors, material omissions, and noncompliant recipients that USACE reported to the Office of Management and Budget (OMB).

We identified the following guidance for reporting and data quality review requirements for USACE and Recovery Act award recipients: OMB Memorandum M-10-08, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates” December 18, 2009; and USACE internal Recovery Act guidance, “Fragmentary Order #25 to OPERATIONS ORDER 2009-11 (USACE Execution of the American Recovery & Reinvestment Act 2009) (Recipient Reporting),” December 2009. We interviewed Headquarters, USACE personnel and USACE contracting officers. We also performed a limited walk-through at USACE HQ to obtain an overview of the USACE data quality review procedures.

We selected 2 judgment samples of 10 USACE Recovery Act awards from the Federal award database. To determine whether USACE provided key award information to Recovery Act recipients, we selected the 10 highest dollar value contracts with an award date prior to October 2009. To determine whether USACE took action to reduce future noncompliant recipients, we selected the 10 highest dollar value contracts with recipients who were on the noncompliant recipient list for the last 2 reporting periods (quarters ending September 2009 and December 2009).

Use of Computer-Processed Data

We did not rely on computer-processed data or the validity or accuracy of the computer processed data in the performance of this audit.

Prior Coverage of Recovery Act Data Review Process

The Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and the Military Departments have issued reports and memoranda discussing DoD review processes for Recovery Act data. You can access a full list of unrestricted reports at <http://www.recovery.gov/accountability>.

GAO

GAO Report No. 10-581, “Recovery Act—Increasing the Public’s Understanding of What Funds Are Being Spent on and What Outcomes Are Expected,” May 27, 2010

GAO Report No. 10-224T, “Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention,” November 19, 2009

GAO Report No. 09-672T, “Recovery Act--GAO's Efforts to Work with the Accountability Community to Help Ensure Effective and Efficient Oversight,” May 5, 2009

DoD IG

DoD IG Memorandum No. D-2010-RAM-002, “Results From the Audit of DoD’s American Recovery and Reinvestment Act of 2009 Initial Data Quality Review Implementation,” November 3, 2009

DoD IG Memorandum No. D-2010-RAM-001, “US Army Corps of Engineer Data Quality Review Process for Civil Works Programs,” October 30, 2009

DoD IG Memorandum No. D-2009-RAM-001, “Results from Assessment of DoD's Plans for Implementing the Requirements of the American Recovery and Reinvestment Act of 2009,” June 23, 2009

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G ST. NW
WASHINGTON, D.C. 20314-1000

CEIR

10 December 2010

MEMORANDUM FOR Department of Defense, Office of the Inspector General,
400 Army Navy Drive, Arlington VA 22202-4704

SUBJECT: USACE Response to OIG Draft Report – ARRA, USACE, Civil Works, Data
Quality Review Processes for the Period Ending December 31, 2009, Were Not
Effective (Project No. D2009-D000FH-0182.010)

1. Reference DODIG Draft Report, SAB, dated 10 November 2010.
2. HQs USACE concur with the comments and recommendations. The USACE response is attached.
3. For further questions or concerns, please contact the undersigned at
or email at

Encl


BRENDA L. MAYES
Deputy Chief
HQUSACE Internal Review Office

**USACE Response to DODIG Draft Report
ARRA Civil Works Data Quality Review Processes
For the Period Ending 31 December 2009
Were Not Effective
Project No. D2009-D000FH-0182.010**

1. Implement procedures to ensure the U.S. Army Corps of Engineers, Civil Works, Major Subordinate Commands, District Centers, and Field Operating Activities follow updated USACE internal Recovery Act guidance and properly:

- a. Provide key award information to all Recovery Act award recipients.
FRAGO 27, released 24 March 2010, instructed Districts to send an initial informative letter to Recovery Act Recipients detailing reporting requirements under the Recovery Act, and provides key award information required under OMB M-10-08. In addition to the initial letter of requirement, Districts are required to send a quarterly letter detailing: reporting requirements, the upcoming Reporting timeline as well as key award information. Districts are instructed to keep hard copies of all letters sent to recipients and certify 100% compliance to HQ USACE prior to the beginning of the reporting period.
- b. Notify all noncompliant recipients of their failure to submit required reports.
*FRAGO 26, released 09 March 2010, instructed Districts to contact any remaining non-compliant recipients by day 5/6 of the initial submission period. HQ USACE provided all districts with a form letter which serves as a second reminder to the recipients who had not yet reported that the report submission period is about to close and describes the penalty for non-reporting (Letter #3, Tab B, FRAGO # 26).
At the close of the initial submission period, remaining non-compliant recipients are notified of their failure to submit a report and that an interim past performance report will be submitted reflecting this non-compliance (Letter #5, Tab B, FRAGO # 26).
Non-Compliant Recipients receive further instruction on the consequences resulting from continued non-compliance in future quarters prior to the following reporting period (Letter #6 and #7, Tab B, FRAGO # 26)*
- c. Review 100 percent of Recovery Act recipient reports, in accordance with Recovery Act guidance to identify differences not recognized by the ARRA validation tool.
FRAGO 27, released 24 March 2010, requires Districts to review all fields required under OMB 10-M-14 regardless of coverage by the validation tool (Tab D, FRAGO #27). HQ assists in the verification of the FRAGO 27 requirement by a taking a random sample of recipient reports for manual evaluation.

2. Develop and implement U.S. Army Corps of Engineers data quality review processes and procedures, in accordance with Office of Management and Budget (OMB) Memorandum M-10-08, "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, Reporting of Job Estimates," December 18, 2009, to:

a. Accurately identify all significant errors, material omissions, and non-compliant recipients.

The ARRA Validation tool was updated during the April and July time periods to assist districts in the accurate identification of all non-compliant recipients, significant errors, material omissions and other data anomalies listed in OMB 10-M-08. Reporting information is available to agency reviewers thru the ARRA Validation tool. Information is available from day 2 of the reporting period until the end of the Continuous Quality Assurance period and updated on a daily basis.

b. Obtain the amount invoiced for the quarter to accurately validate the number of "jobs retained or created."

Quarterly invoiced amount data from the Corps' financial system, CEFMS, was included in the daily review process beginning in the July 2010 reporting period. The data was used in conjunction with Corps' developed FTE estimates to evaluate recipient reported FTE for accuracy.

c. Identify recipients who under-report the number of "jobs retained or created."

The ability to evaluate under-reported FTE, added to the ARRA Validation Tool during the July 2010 reporting period, allows agency reviewers to identify recipients reporting FTE totals below USACE projected totals based on the action's appropriation.

d. Confirm each quarter that U.S. Army Corps of Engineers, Civil Works, Location personnel have properly distributed key award information and notified all noncompliant recipients.

FRAGO 26, released 09 March 2010, instructed Districts to contact any remaining non-compliant recipients by day 5/6 of the initial submission period. HQ USACE provided all districts with a form letter which serves as a second reminder to the recipients who had not yet reported that the report submission period is about to close and describes the penalty for non-reporting (Letter #3, Tab B, FRAGO # 26).

Districts are instructed to keep hard copies of all letters sent to recipients and certify 100% compliance to HQ USACE prior to the beginning of the reporting period.



Inspector General Department of Defense

